

# **LSA ASSOCIATES, INC.**

Audit Report

## **CALIFORNIA DEPARTMENT OF TRANSPORTATION CONTRACT NO. 12A1144**

*June 1, 2006, through February 29, 2008*



**JOHN CHIANG**  
California State Controller

August 2008



**JOHN CHIANG**  
**California State Controller**

August 29, 2008

Douglas Gibson  
The California Department of Transportation  
Audits and Investigations, MS 2  
P.O. Box 942874  
Sacramento, CA 94274-0001

Dear Mr. Gibson:

The State Controller's Office has completed a post-award audit of LSA Associates, Inc.'s Contract No. 12A1144 with the California Department of Transportation for the period of June 1, 2006, through February 29, 2008.

Our post-award audit determined that salary rates of some employees identified in the cost proposal are misstated and unallowable costs were included in the calculation of the indirect cost rate.

If you have any questions, please call Andrew M. Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

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## **Audit Report**

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# Audit Report

## Summary

The State Controller's Office (SCO) has completed a post-award audit of LSA Associates, Inc.'s Contract No. 12A1144 with the California Department of Transportation for the period of June 1, 2006, through February 29, 2008.

Our post-award audit determined that salary rates of some employees identified in the cost proposal are misstated and unallowable costs were included in the calculation of the indirect cost rate.

## Background

The California Department of Transportation (Caltrans) entered into a contract agreement (Contract No. 12A1144) with LSA Associates, Inc. (consultant) to provide contract management; quality control and contract oversight; CEQA/NEPA management/documentation; and technical studies. The contract agreement commenced on January 22, 2008, and will terminate on June 30, 2011; the total amount shall not exceed \$3,000,000. The consultant will be reimbursed for hours worked at the hourly rates specified in the consultant's cost proposal. The specified hourly rates shall include direct salary costs, employee benefits, overhead, and fees. In addition, the consultant will be reimbursed for direct costs, other than salary costs, that are identified in an executed task order. Transportation and subsistence costs to be reimbursed shall be the actual costs incurred, but not to exceed the rates stipulated in the "Caltrans Travel Guide, Consultant/Contractors Travel Policy."

The subcontractors proposed for this contract are as follows:

RBF Consulting  
Arellano and Associates

The consultant is responsible for ensuring compliance with contract provisions and state and federal regulations which include, but are not limited to, ensuring that the costs proposed for this agreement are reasonable, allowable, and allocable, and that the financial management systems maintained by the consultant are adequate to accumulate and segregate reasonable, allocable, and allowable costs.

## Objectives, Scope, and Methodology

The scope of the audit was limited to financial and compliance activities related to the above referenced contract proposal. The audit consisted of verifying the proposed costs and assessing the accounting principles used and significant estimates made by the consultant, as well as evaluating compliance with the Title 49, Code of Federal Regulations (CFR), Part 18, and Title 48, CFR, Chapter 1, Part 31. We reviewed the proposed agreement, interviewed applicable personnel, and performed limited tests on the consultant's financial management system and proposed costs as of February 29, 2008. We reviewed the proposed rates for purposes of accepting contract progress billings. The consultant's financial management system and cost-proposal changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit LSA Associates, Inc.'s financial statements and we did not audit or examine the proposed indirect costs rates since a post-award audit is significantly less in scope than an incurred cost audit or examination. Those financial statements and indirect cost rates were audited by other auditors, whose reports have been furnished to us. Our review of LSA Associates, Inc.'s internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our post-award audit determined that proposed labor rates of some employees identified in the cost proposal are misstated and unallowable costs were included in the calculation of the indirect cost rate.

## **Views of Responsible Officials**

We discussed the audit results with the consultant's management (Jim Baum and Teri Dela Cruz) during the exit conference held on June 17, 2008. They acknowledged the audit results and provided no further comments; therefore, a draft report is not necessary and the report will be issued as final.

## **Restricted Use**

This report is solely for the information and use of the California Department of Transportation, LSA Associates, Inc., and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

August 29, 2008

# Findings and Recommendations

## **FINDING 1— Proposed labor rates are misstated**

We determined that labor rates for employees identified in the contract cost proposal are misstated. We reviewed payroll records of eight employees and we determined the following misstatements:

- One of eight employees' proposed hourly rate is overstated by \$10.25.
- Seven of eight employees' proposed hourly rates are understated between \$2.33 and \$5.17.

Title 49, Code of Federal Regulations (CFR), Subtitle C, section 18.20(5), "Allowable costs," states, "Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs."

Title 49, CFR, Subtitle C, section 18.20(6), "Source documentation," states, "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

### Recommendation

The contract cost proposal should be modified to state accurate salary rates of employees identified in the contract.

## **FINDING 2— Unallowable costs were included in the calculation of the indirect cost rate**

We determined that the overhead costs used in the calculation of the proposed indirect rate of 167% included costs for "temp help recruitment" (Office Expense) in the amount of \$196,043. Most of the costs for "temp help recruitment" were directly billed by the consultant to its clients; however, the consultant cannot identify how much of these costs were billed. Accordingly, we disallowed all of the costs for "temp help recruitment" in the calculation of the indirect cost rate. The recalculated indirect cost rate is 164.7%.

Title 49, CFR, Subtitle C, section 18.20(5), "Allowable costs," states, "Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs."

### Recommendation

The consultant should determine what portion, if any, of the "temp help recruitment" costs that were not billed to clients. Only this portion can be included in the calculation of the indirect cost rate. The contract cost proposal should be modified to accurately state the consultant's indirect cost rate.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**